

CITY OF SUMAS
Whatcom County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. The City Should Improve Its Accounting For Fixed Assets And Inventory

Our audit of the city's fixed assets and materials and supplies inventory systems revealed continued weaknesses:

- The city does not maintain a subsidiary fixed assets ledger with which to reconcile physical inventory counts for their governmental funds.
- Physical inventory counts for materials and supplies in the city's enterprise funds cannot be reconciled to physical inventory records.

RCW 43.09.200 Division of Municipal Corporations) *Uniform System of Accounting*
states in part:

The accounts shall show the receipt, use, and disposition of all public property

RCW 43.09.200 also requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states, in Volume 1, Part 3, Chapter 7, page 7:

Accountability for fixed assets is required of all local governments, regardless of size

The BARS manual, Volume 1, Part 3, Chapter 7, page 17 further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

The American Institute of Certified Public Accountants (AICPA) in its *Codification of Statements on Auditing Standards*, AU Section 319, Appendix D, states in part:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize, and report financial data that is consistent with management's assertions embodied in the financial statements, some of the following objectives management may wish to consider include the following:

Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability of assets.

The recorded accountability of assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. [Emphasis ours.]

City officials were not aware of requirements over fixed assets in its governmental funds. In addition, materials and supplies inventory records cannot be reconciled to actual physical inventory because (1) some items have been recorded as inventory which were not materials and supplies and (2) the utility crew has failed to notify the deputy clerk/treasurer of the use of materials and supplies needed for smaller projects.

Because the city does not account for its fixed assets, there is an increased risk that errors or irregularities may occur and not be detected in a timely manner, if at all. In addition, accounting records cannot be relied upon to determine the actual cost of materials and supplies inventory or to support the preparation of the financial statements.

We again recommend city officials establish a fixed asset accounting system. We again further recommend the city improve its accounting for materials and supplies inventory.

2. The City Should Improve Internal Controls Over The Advance Travel Fund And Operate It In Compliance With Legal Requirements

Our review of the Advance Travel Fund at the City of Sumas disclosed the following internal control weaknesses:

- The city does not have a detailed travel policy.
- The city does not always require written requests for advance travel.
- The city could not provide adequate supporting documentation for all travel expenses and fund reimbursements.
- An Advance Travel Fund checkbook register was not maintained nor were bank reconciliations or reconciliations to authorized amounts made between March 1991 and March 1995.

The *Budgeting, Accounting and Reporting System (BARS)* manual, Volume 1, Part 3, Chapter 3, pages 19-21 states in part:

The legislative body of each municipality must pass an ordinance or resolution to establish rules and regulations for the reimbursement of travel expense.

The BARS manual, Volume 1, Part 3, Chapter 3, page 21 also requires written requests for advance travel which are to be signed by the applicant.

RCW 43.09.200 states in part:

The system shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction. [Emphasis ours.]

BARS Volume 1, Part 3, Chapter 3, page 20 also requires in part:

A check register will be maintained in which will be recorded all transactions of the account . . . A reconciliation shall be made with the bank statement at the end of each month . . . by someone other than the custodian. The balance remaining in the checking account . . . together with any outstanding advances and travel expense claims on hand but not yet reimbursed, should always equal the amount established by the governing body for the account.

Noncompliance with the cited requirements occurred because city personnel were not aware of these requirements. Without proper internal controls errors or irregularities can occur without being detected in a timely manner, if at all.

We recommend the city formally adopt a detailed travel policy and comply with the RCW and BARS requirements for issuance and processing of travel advances. We also recommend that the Advance Travel Fund be reconciled to the bank and to the authorized amount on a timely basis, by someone other than the custodian.